

Management Challenges for the 21st Century

- (2) Tomorrow's "Hot" issues and how to use this book
 - ▲ It deals exclusively with TOMORROW'S "Hot" Issues—the crucial, central, life-and-death issues that are certain to be the major challenges of tomorrow.
 - ▲ Those who wait until these challenges have indeed become "hot" issues are likely to fall behind, perhaps never to recover.
 - ▲ We live in a period of PROFOUND TRANSITION
 - ▲ These challenges are not arising out of today.
 - ▲ THEY ARE DIFFERENT.
 - ⇒ In most cases they are at odds and incompatible with what is accepted and successful today.
 - ⇒ The new realities and their demands require a REVERSAL of policies that have worked well for the last century and, even more, a change in the MINDSET of organizations as well as of individuals.
 - ▲ The challenges it presents affect ALL organizations of today's society.
 - ▲ This book is thus a Call for Action.
 - ▲ How to use the book?
 - ⇒ I suggest you read a chapter at a time
 - ⇒ And then first ask:
 - ★ "What do these issues, these challenges MEAN ...
 - for our organization and
 - for me as a knowledge worker, a professional, an executive?"
 - ⇒ Once you have thought this through, ask: "What ACTION should our organization and I, the individual knowledge worker and/or executive, take to make the challenges of this chapter into OPPORTUNITIES for our organization and me?"
 - ⇒ AND THEN GO TO WORK!

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□ (3) Management's New Paradigms

- ▲ What matters most in a social discipline such as management are the basic assumptions.
- ▲ And a CHANGE in the basic assumptions matters even more.
- ▲ Since the study of management first began—and it truly did not emerge until the 1930s—TWO SETS of assumptions regarding the REALITIES of management have been held by most scholars, most writers and most practitioners:
 - ⇒ One set of assumptions underlies the DISCIPLINE of management:
 - ★ 1. Management is Business Management.
 - ★ 2. There is—or there must be—ONE right organization structure.
 - ★ 3. There is—or there must be—ONE right way to manage people.
 - ⇒ Another set of assumptions underlies the PRACTICE of Management:
 - ★ 1. Technologies, markets and end-uses are given.
 - ★ 2. Management's scope is legally defined.
 - ★ 3. Management is internally focused.
 - ★ 4. The economy as defined by national boundaries is the "ecology" of enterprise and management.
- ▲ For most of this period—at least until the early 1980s—all but the first of these assumptions were close enough to reality to be operational, whether for research, for writing, for teaching or for practicing management.
- ▲ By now all of them have outlived their usefulness.
 - ⇒ They are close to being caricatures.
 - ⇒ They are now so far removed from actual reality that they are becoming obstacles to the Theory and even more serious obstacles to the Practice of management.
 - ⇒ Indeed, reality is fast becoming the very opposite of what these assumptions claim it to be.
- ▲ It is high time therefore to think through these assumptions and to try to formulate the NEW ASSUMPTIONS that now have

- to inform both the study and the practice of management.
- ⇒ Management is Business Management.
 - ★ Management is the specific and distinguishing organ of any and all organizations.
 - ⇒ There is—or there must be—ONE right organization structure.
 - ★ There are only organizations, each of which has distinct strengths, distinct limitations and specific applications.
 - ★ It has become clear that organization is not an absolute.
 - ★ It is a tool for making people productive in working together.
 - ★ As such, a given organization structure fits certain tasks in certain conditions and at certain times.
 - ★ Instead of searching for the right organization, management needs to learn to look for, to develop, to test the organization that fits the task.
 - ⇒ There is—or there must be—ONE right way to manage people.
 - ★ This will require, above all, very different assumptions about people in organizations and their work:
 - One does not "manage" people.
 - The task is to lead people.
 - ✓ And the goal is to make productive the specific strengths and knowledge of each individual.
 - ⇒ Technologies, markets and end-uses are given.
 - ★ Management will increasingly have to be based on the assumption that neither technology nor end use is a foundation for management policy.
 - ★ They are limitations.
 - ★ The foundations have to be customer values and customer decisions on the distribution of their disposable income.
 - ★ It is with those that management policy and management strategy increasingly will have to start.
 - ⇒ Management's scope is legally defined.

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- ★ The new assumption on which management, both as a discipline and as a practice, still increasingly have to base itself is that the scope of management is not legal.
 - It has to be operational.
 - It has to embrace the entire process.
 - It has to be focused on results and performance across the entire economic chain.
- ⇒ The economy as defined by national boundaries is the “ecology” of enterprise and management.
 - ★ But the new assumption has to be:
 - National boundaries are important primarily as restraints.
 - The practice of management—and by no means for businesses only—will increasingly have to be defined operationally rather than politically.
- ⇒ Management is internally focused.
 - ★ Management must focus on the results and performance of the organization.
 - ★ Indeed, the first task of management is to define what results and performance are in a given organization—and this, as anyone who has worked on it can testify, is in itself one of the most difficult, one of the most controversial, but also one of the most important tasks.
 - ★ It is therefore the specific function of management to organize the resources of the organization for results outside the organization.
 - ★ The new assumption—and the basis for the new paradigm on which management, both as a discipline and as a practice has to be based—is therefore:
 - Management exists for the sake of the institution's results.
 - It has to start with the intended results and has to organize the resources of the institution to attain these results.
 - It is the organ to make the institution, whether business, church, university, hospital or a battered women's shelter, capable of producing results outside of itself.
- ⇒ Conclusion
 - ★ But underlying all of these is one insight.
 - The center of a modern society, economy and community
 - ✓ Is not
 - * technology
 - * information
 - * productivity
 - ✓ It is the managed institution as the organ of society to produce results.
 - And management is the specific tool, the specific function, the specific instrument to make institutions capable of producing results.
 - ★ This, however, requires a FINAL new management paradigm:
 - Management's concern and management's responsibility are everything that affects the performance of the institution and its results—whether inside or outside, whether under the institution's control or totally beyond it.

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□ (4) Strategy—The New Certainties

- ▲ Every organization operates on a Theory of the Business, that is, a set of assumptions as to what its business is, what its objectives are, how it defines results, who its customers are, what the customers value and pay for.
- ▲ Strategy converts this Theory of the Business into performance.
- ▲ Its purpose is to enable an organization to achieve its desired results in an unpredictable environment.
- ▲ Are there any assumptions on which to base the strategies of an organization and especially of a business?
- ▲ Are there any certainties?
- ▲ There are indeed FIVE phenomena that can be considered certainties.
 - ⇒ They are, however, different from anything present strategies consider.
 - ⇒ Above all, they are not, essentially, economic.
 - ⇒ They are primarily social and political.
- ▲ These five certainties are:
 - ⇒ 1. The Collapsing Birthrate in the Developed World.
 - ★ Above all, any strategy, that is, any commitment of present resources to future expectations—and this, to repeat, is what a strategy means has to start out with demographics and, above all, with the collapsing birthrate in the developed world.
 - ★ Of all developments, it is the most spectacular, the most unexpected and one that has no precedent whatever.
 - ⇒ 2. Shifts in the Distribution of Disposable Income.
 - ★ Shifts in the shares of disposable income are just as important as shifts in population, but usually even less attention is paid to them.
 - ★ And they are likely—indeed all but certain—to be as dramatic as the demographic changes during the first decades of the 21st century.
 - ★ And within the first decades of the 21st century there will be both changes in the trends and changes within the trend.
 - ⇒ 3. Defining Performance.

- ★ We will have to learn to establish new definitions of what “performance” means in a given enterprise, and especially in the large, publicly owned enterprise.
 - We will have to learn how to balance short-term results—which is what the present emphasis on “shareholder value” amounts to with the long-range prosperity and survival of the enterprise.
- ★ We will therefore have to learn to develop new concepts of what “performance” means in an enterprise.
 - We will have to develop new measurements and so on.
- ⇒ 4. Global Competitiveness.
 - ★ Performance below the world's highest standards stunts, even if the costs are very low and even if government subsidies are very high.
 - ★ Any institution—and not just businesses—has to measure itself against the standards set by each industry's leaders anyplace in the world.
- ⇒ 5. The Growing Incongruence Between Economic Globalization and Political Splintering.
- ▲ Conclusion
 - ⇒ The realities discussed in this chapter do not tell an institution what to do, let alone how to do it.
 - ⇒ They raise the questions to which strategy has to find the answers for the individual institution.
 - ⇒ And there are questions that strategy so far has rarely, if ever, considered.
 - ⇒ But unless an institution starts out by considering these new realities, it will not have a strategy.
 - ⇒ It will not be prepared for the challenges that the next few years, if not the next few decades, are certain to raise.
 - ⇒ Unless these challenges can be met successfully, no enterprise can expect to succeed, let alone to prosper, in a period of turbulence, of structural change and of economic, social, political and technological transformation.

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□ (5) The Change Leader

- ▲ One cannot manage change.
- ▲ One can only be ahead of it.
- ▲ In a period of rapid structural change, the only ones who survive are the Change Leaders.
- ▲ A change leader sees change as opportunity. A change leader:
 - ⇒ looks for change,
 - ⇒ knows how to find the right changes and
 - ⇒ knows how to make them effective both outside the organization and inside it.
- ▲ This requires:
 - ⇒ 1. Policies to make the future.
 - ★ Organized Abandonment
 - ★ Organized Improvement
 - ★ Exploiting Success
 - ★ Creating Change (Innovation)
 - ⇒ 2. Systematic methods to look for and to anticipate change.
 - ⇒ 3. The right way to introduce change, both within and outside the organization.
 - ⇒ 4. Policies to balance change and continuity.
- ▲ Making the Future (conclusion)
 - ⇒ One thing is certain for developed countries—and probably for the entire world: We face long years of profound changes.
 - ★ The changes are not primarily economic changes.
 - ★ They are not even primarily technological changes.
 - ★ They are changes in demographics, in politics, in society, in philosophy and, above all, in worldview.
 - ⇒ Economic theory and economic policy are unlikely to be effective by themselves in such a period.
 - ⇒ And there is no social theory for such a period either.
 - ⇒ Only when such a period is over, decades later, are theories likely to be developed to explain what has happened.
 - ⇒ But a few things are certain in such a period.
 - ★ It is futile, for instance, to try to ignore the changes and to pretend

that tomorrow will be like yesterday, only more so.

- ★ But to try to anticipate the changes is equally unlikely to be successful. These changes are not predictable.
- ⇒ The only policy likely to succeed is to try to make the future.
 - ★ Changes of course have to fit the Certainties (which this book attempted to outline in the preceding chapter).
 - ★ Within these restraints, however, the future is still malleable.
 - It can still be created.
 - To try to make the future is highly risky.
 - It is less risky, however, than not to try to make it.
 - ★ A goodly proportion of those attempting to do what this chapter discusses will surely not succeed.
 - ★ But, predictably, no one else will.

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□ (6) Information Challenges

▲ Introduction

- ⇒ A new Information Revolution(s) is well under way.
- ⇒ And what has triggered these information revolutions and is driving them is the failure of the "Information Industry"—the IT people, the MIS people, the CIOs—to provide INFORMATION.
- ⇒ The new information revolutions focus on the "I" They ask, "What is the MEANING of information and its PURPOSE?"
- ⇒ And this is leading rapidly to redefining the tasks to be done with the help of information and, with it, to redefining the institutions that do these tasks.

▲ From the "T" to the "I" in "IT"

- ⇒ Current IT's areas of impact and non-impact
- ⇒ The Lessons of History
- ⇒ History's Lesson for the Technologists
- ⇒ The New Print Revolution

▲ The Information Enterprises Need

- ⇒ From Cost Accounting to Result Control (activity based costing)
- ⇒ From Legal Fiction to Economic Reality (economic-chain costing)
- ⇒ Information for Wealth Creation (foundation information, productivity information, competence information, and resource allocation information)
- ⇒ Where the Results Are (outside information)

▲ The Information Executives Need for Their Work

- ⇒ Identifying information needs and creating communications
 - ★ Both questions, "What do I owe?" and "What do I need?" sound deceptively simple.
 - What I owe comes first because it establishes communications.
 - ✓ And unless that has been established, there will be no information flow back to the executive.
 - ✓ However, what makes communications effective at the workplace is that they

are focused on something outside the person.

- * They have to be focused on a common task and on a common challenge.

- * They have to be focused on the work.

- ✓ And by asking: "To whom do I owe information, so that they can do their work?" communications are being focused on the common task and the common work.

- ✓ The first question therefore (as in any effective relationship), is not: "What do I want and need?"

- ✓ It is: "What do other people need from me?"

- ✓ and "Who are these other people?"

- But everyone who has asked them has soon found out that it takes a lot of thought, a lot of experimentation, a lot of hard work, to answer them.

- And the answers are not forever.

- ✓ In fact, these questions have to be asked again, every eighteen months or so.

- ✓ They also have to be asked every time there is a real change, for example, a change in the enterprise's theory of the business, in the individual's own job and assignment, or in the jobs and assignments of the other people.

- ⇒ Organizing Information

- ★ Unless organized, information is still data.

- ★ It is, however, not clear at all in what form certain kinds of information are meaningful, and especially in what form of organization they are meaningful for one's own job.

- ★ And the same information may have to be organized in different ways for different purposes.

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- ★ No two executives, in my experience, organize the same information the same way.
 - ★ And information has to be organized the way individual executives work.
 - ★ But there are some basic methodologies to organize information.
- ⇒ No Surprises
- ★ And the ultimate test of an information system is that there are no surprises.
 - Before events become significant, executives have already adjusted to them, analyzed them, understood them and taken appropriate action.
 - ★ Executives have to learn two things:
 - to ELIMINATE data that do not pertain to the information they need; and
 - to organize the data, to analyze, to interpret and then to focus the resulting information on ACTION.
- ⇒ Going Outside
- ★ No matter how good the reports, no matter how good the economic or financial theory underlying them, nothing beats personal, direct observation, and in a form in which it is truly outside observation.
 - Only by being a customer oneself, a salesman oneself, a patient oneself, can one get true information about the outside.
 - And even that information is of course still limited to one's customers and one's noncustomers.
 - ★ In the long run, information about the outside may be the most important information executives need to do their work.

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□ (7) Knowledge-Worker Productivity

▲ Introduction

- ⇒ The most important, and indeed the truly unique, contribution of management in the 20th century was the fifty-fold increase in the productivity of the MANUAL WORKER in manufacturing.
- ⇒ The most important contribution management needs to make in the 21st century is similarly to increase the productivity of KNOWLEDGE WORK and the KNOWLEDGE WORKER.
- ⇒ The most valuable assets of a 20th-century company were its production equipment.
- ⇒ The most valuable asset of a 21st-century institution, whether business or nonbusiness, will be its knowledge workers and their productivity.

▲ Work on the productivity of the knowledge worker has barely begun.

▲ SIX major factors determine knowledge-worker productivity.

- ⇒ 1. Knowledge worker productivity demands that we ask the question: "What is the task?"
- ⇒ 2. It demands that we impose the responsibility for their productivity on the individual knowledge workers themselves.
 - ★ Knowledge workers have to manage themselves.
 - ★ They have to have autonomy.
- ⇒ 3. Continuing innovation has to be part of the work, the task and the responsibility of knowledge workers.
- ⇒ 4. Knowledge work requires continuous learning, on the part of the knowledge worker, but equally continuous teaching on the part of the knowledge worker.
- ⇒ 5. Productivity of the knowledge worker is not—at least not primarily—a matter of the quantity of output. Quality is at least as important.
 - ★ Productivity of knowledge work therefore has to aim first at obtaining quality—and not minimum quality but optimum if not maximum quality.
- ⇒ 6. Finally, knowledge-worker productivity requires that the

knowledge worker is both seen and treated as an "asset" rather than a "cost."

- ★ It requires that knowledge workers want to work for the organization in preference to all other opportunities.

- ★ Management's duty is to preserve the assets of the institution in its care.

- What does this mean when the knowledge of the individual knowledge worker becomes an asset and, in more and more cases, the main asset of an institution?

- What does this mean for personnel policy?

- What is needed to attract and to hold the highest-producing knowledge workers?

- What is needed to increase their productivity and to convert their increased productivity into performance capacity for the organization?

- ▲ What does the emergence of the knowledge worker and of knowledge-worker productivity mean for the governance of the corporation?

- ⇒ What do they mean for the future and structure of the economic system?

PD's View of Developmental Directions

□ (8) Managing Oneself

- ▲ Individual needs/requirements:
 - ⇒ More and more people in the workforce—and most knowledge workers—will have to MANAGE THEMSELVES.
 - ⇒ They will have to place themselves where they can make the greatest contribution; they will have to learn to develop themselves.
 - ⇒ They will have to learn to stay young and mentally alive during a fifty-year working life.
 - ⇒ They will have to learn how and when to change what they do, how they do it and when they do it.
- ▲ Work life assumptions
 - ⇒ Knowledge workers are likely to outlive their employing organization.
 - ⇒ And they are likely to have to keep working, if only part-time, until they are around seventy-five or older.
 - ⇒ Increasingly, therefore, workers, and especially knowledge workers, will outlive any one employer, and will have to be prepared for more than one job, more than one assignment, more than one career.
- ▲ So far, this book has dealt with changes in the environment: in society, economy, politics, technology.
- ▲ This concluding chapter deals with the new demands on the individual.
- ▲ Knowledge workers, therefore, face drastically new demands:
 - ⇒ 1. They have to ask: Who Am I? What Are My Strengths? HOW Do I Work?
 - ⇒ 2. They have to ask: Where Do I Belong?
 - ⇒ 3. They have to ask: What Is My Contribution?
 - ⇒ 4. They have to take Relationship Responsibility.
 - ⇒ 5. They have to plan for the Second Half of Their Lives.
- ▲ Chapter perspective
 - ⇒ The changes and challenges of Managing Oneself may seem obvious, if not elementary, compared to the changes and challenges discussed in the earlier chapters.
- ⇒ And the answers may seem to be self-evident to the point of appearing naive.
- ⇒ To be sure, many topics in the earlier chapters—for example, Being a Change Leader or some of the Information Challenges—are far more complex and require more advanced and more difficult policies, technologies, methodologies.
- ⇒ But most of the new behavior—the new policies, technologies, methodologies—called for in these earlier chapters can be considered EVOLUTIONS.
- ⇒ Managing Oneself is a REVOLUTION in human affairs.
- ⇒ It requires new and unprecedented things from the individual, and especially from the knowledge worker.
- ⇒ For in effect it demands that each knowledge worker think and behave as a Chief Executive Officer.
- ⇒ It also requires an almost 180-degree change in the knowledge workers' thoughts and actions from what most of us—even of the younger generation—still take for granted as the way to think and the way to act.
- ⇒ But also the shift from manual workers who do as they are being told—either by the task or by the boss to knowledge workers who have to manage themselves profoundly challenges social structure.
 - ★ For every existing society, even the most “individualist” one, takes two things for granted, if only subconsciously: Organizations outlive workers, and most people stay put.
 - ★ Managing Oneself is based on the very opposite realities: Workers are likely to outlive organizations, and the knowledge worker has mobility.
- ⇒ But even in the United States, workers outliving organizations—and with it the need to be prepared for a Second and Different Half of One's Life—is a revolution for which practically no one is prepared.

PD's View of Developmental Directions

- ⇒ Nor is any existing institution, for example, the present retirement system.
- ⇒ In the rest of the developed world, however, immobility is expected and accepted.
- ⇒ The emergence of the knowledge worker who both can and must manage himself or herself is transforming every society.

□ **Conclusion to the book**

- ▲ This book has intentionally confined itself to **MANAGEMENT CHALLENGES**.
- ▲ Even in this last chapter, it has talked about the individual, that is, the knowledge worker.
- ▲ But the changes discussed in this book go way beyond management.
- ▲ They go way beyond the individual and his or her career.
- ▲ What this book actually dealt with is:
THE FUTURE OF SOCIETY

PD's View of Developmental Directions

(9) Leadership

- The behavior of business and business leaders matters—society's leaders
- Has little to do with ...
 - ▲ Leadership qualities or personality traits
 - ▲ Charisma (even less)
- It is...
 - ▲ Mundane
 - ▲ Unromantic
 - ▲ Boring
- Its essence in **performance**
- Not by itself good or desirable
- To what end? is the crucial question
- Leadership is work
- The foundation of effective leadership — mission, goals, standards
- What distinguishes the leader from the misleader are his goals
- The leader sees leadership as responsibility rather than rank and privilege
- When things go wrong and they always do — they do not blame others
 - ▲ Leader is ultimately responsible
 - ▲ Holds himself responsible for the mistakes of his associates and subordinates
- See the triumphs of his associates and subordinates as his triumphs
- Not afraid of strength in associates and subordinates
 - ▲ Effective leaders want strong associates
 - ▲ **Ultimate task of leadership** is to create human energies and human vision
- Earns trust
 - ▲ Otherwise there won't be any followers— and the only definition of a leader is someone who has followers
 - ▲ To trust a leader—not necessary to like him
 - ▲ Trust is ... the conviction that the leader means what he says
 - ⇒ A leader's actions and a leader's professed beliefs must be congruent, or at least compatible
 - ⇒ Must be consistent

(10) Society

From *Post-capitalist Society*: "The basic economic resource—"the means of production," to use the economist's term—is no longer capital, nor natural resources (the economist's "land"), nor "labor." It is and will be **knowledge**.

The central wealth-creating activities will be neither the allocation of capital to productive uses, nor "labor"....

Value is now created by "productivity" and "innovation," both applications of knowledge to work.

The leading social groups of the knowledge society will be "knowledge workers"—**knowledge executives** who know how to allocate knowledge to productive use just as the capitalists knew how to allocate capital to productive use; knowledge professionals; knowledge employees.

Practically all these knowledge people will be employed in organizations.

Yet, unlike the employees under Capitalism, they will own both the "means of production" and the "tools of production"—the former through their pension funds, which are rapidly emerging in all developed countries as the only real owners; the latter because knowledge workers own their knowledge and can take it with them wherever they go.

The economic challenge of the post-capitalist society will therefore be the productivity of knowledge work and the knowledge worker."

Later on he states "the THE NEW CHALLENGE facing the post-capitalist society is the productivity of knowledge workers and service workers."

"The social challenge of the post-capitalist society is the dignity of ... service workers"—the majority of the population.

□ The society of organizations

▲ About organizations

- ⇒ An organization is a human group, composed of specialists working together on a common task.
- ⇒ Yet, while a human creation, it is meant to endure—not perhaps forever, but for a considerable period of time.

- ⇒ An organization is always specialized.
- ⇒ It is **defined by its task**.
- ⇒ An organization is **effective only if it concentrates on one task**.

▲ Society in all developed countries has become a society of organizations in which most, if not all, social tasks are being done in and by an organization

▲ What function do organizations perform? Why are they needed?

- ⇒ The function of organizations is to make knowledges productive.
- ⇒ **The more specialized knowledges are, the more effective they will be.**
- ⇒ **They become productive only if welded together into a single, unified knowledge.**
- ⇒ To make this possible is the task of organization, the reason for its existence, its function.

▲ Characteristics of organizations (what is an organization? How does it work?)

- ⇒ Organizations are special-purpose institutions.
- ⇒ And in an organization, diversification means splintering.
- ⇒ It destroys the performance capacity of any organization
- ⇒ Organization is a tool.
 - ★ **As with any tool, the more specialized its given task, the greater its performance capacity.**
- ⇒ Because the organization is composed of specialists, each with his or her own narrow knowledge area, its mission must be crystal clear.
 - ★ The organization must be single-minded, otherwise its members become confused.
 - ★ **They will follow their specialty rather than applying it to the common task.**
 - ★ **They will each define "results" in terms of that specialty, imposing their own values on the organization.**
- ⇒ Only a clear, focused, and common mission can hold the organization together and enable it to produce results.
 - ★ Without such a focused mission, the organization soon loses credibility.

PD's View of Developmental Directions

- ⇒ The **prototype** of the modern organization is the **symphony orchestra**.
 - ★ Each of the two hundred fifty musicians in the orchestra is a specialist, and a high-grade one.
 - ★ Yet by itself the tuba doesn't make music; only the orchestra can do that.
 - ★ The orchestra performs only because all two hundred fifty musicians have the same score.
 - ★ They all subordinate their specialty to a common task.
 - ★ And they all play only one piece of music at any given time.
- ⇒ Results in an organization exist only on the outside.
- ⇒ This means that results in an organization are always pretty far away from what each member contributes.
- ⇒ Results need to be defined clearly and unambiguously—and, if at all possible, measurably.
- ⇒ This also requires that an organization appraise and judge itself and its performance against clear, known, impersonal objectives and goals.
- ⇒ An organization is always in competition for its most essential resource: qualified, knowledgeable, dedicated people.
 - ★ This means that organizations have to market membership, fully as much as they market their products and services—and perhaps more.
 - ★ They have to attract people, have to hold people, have to recognize and reward people, have to motivate people, have to serve and satisfy people.
- ⇒ Because modern organization is an organization of knowledge specialists, it has to be an organization of equals, of "colleagues," of "associates."
 - ★ No one knowledge "ranks" higher than another.
 - ★ The position of each is determined by its contribution to the common task rather than by any inherent superiority or inferiority.
- ★ The modern organization cannot be an organization of "boss" and "subordinate"; it must be organized as a team of "associates."
- ⇒ An organization is always managed.
 - ★ There have to be people who make decisions, or nothing will ever get done.
 - ★ There have to be people who are accountable for the organization's mission, its spirit, its performance, its results.
 - ★ There must be a "conductor" who controls the "score."
 - ★ There have to be people who focus the organization on its mission, set the strategy to carry it out, and define what the results are.
 - ★ This management has to have considerable authority.
 - ★ Yet its job in the knowledge organization is not to command; it is to direct.
- ⇒ Finally, to be able to perform, an organization must be autonomous.
 - ★ Legally, it may be a government agency, as are Europe's railways, America's state universities, or Japan's leading radio and television network, NHK.
 - ★ Yet in actual operation these organizations must be able to "do their own thing."
 - ★ If they are used to carry out "government policy," they immediately stop performing.
- ▲ Organization as a destabilizer
 - ⇒ But the organization of the post-capitalist society of organizations is a destabilizer.
 - ⇒ Because its function is to put knowledge to work—on tools, processes, and products; on work; on knowledge itself—it must be **organized for constant change**.
 - ⇒ One implication: every organization of today has to build into its very structure **the management of change**.
 - ★ It has to build in organized **abandonment** of everything it does.
 - It has to learn to ask every few years of every process, every

PD's View of Developmental Directions

- product, every procedure, every policy: "If we did not do this already, would we go into it now, knowing what we now know?"
- And if the answer is no, the organization has to ask: "And what do we do now?"
 - It has to do something, not just make another study.
 - Increasingly, organizations will have to plan abandonment rather than try to prolong the life of a successful policy: practice, or product—something which so far only a few large Japanese companies have faced up to. {On this, see Chapter 24, "The New Japanese Business Strategies," in *Managing for the Future* (1992)}
- ★ But the **ability to create the new** also has to be built into the organization.
- Specifically, each organization has to build into its very fabric three systematic practices.
 - ✓ First, each organization requires **continuing improvement of everything it does**—the process the Japanese call Kaizen.
 - * The aim of Kaizen is to improve each product or service so that it becomes a truly different product or service in two or three years' time.
 - ✓ Every organization will secondly have to learn to **exploit**, that is, to develop new applications from its own successes.
 - ✓ Every organization, third, will have to learn how to **innovate** and to learn that innovation can and should be organized as a systematic process.
- ★ Then of course one comes back to abandonment and the whole process starts all over again.
- ★ Unless these tasks are systematically carried out, the knowledge-based post-capitalist organization will very soon find itself obsolescent.
- It soon will lose performance capacity, and with it the ability to attract and to hold the knowledge specialists on whom it depends.
- ⇒ There is a further implication: post-capitalist society has to be **decentralized**.
- ★ Its organizations must be able to make fast decisions, based on closeness to performance, closeness to the market, closeness to technology, closeness to the changes in society, environment, and demographics, all of which must be seen and utilized as opportunities for innovation.
- ⇒ It is the nature of the task that determines the culture of an organization, rather than the community in which that task is being performed.
- ⇒ In its culture, the organization thus always transcends the community.
- ⇒ If an organization's culture clashes with the values of its community, the organization's culture will prevail—or else the organization will not make its social contribution.
- ⇒ **But every knowledge organization is of necessity non-national, non-community.**
- ▲ The employee society
- ⇒ Just as post-capitalist society has become a society of organizations, it has also become a society of employees.
 - ⇒ These are only two different ways to describe the same phenomenon.
 - ⇒ In the employee society, the employee and the tools of production are interdependent.
 - ⇒ Knowledge employees cannot, in effect, be supervised.
 - ★ Unless they know more than anybody else in the organization,

PD's View of Developmental Directions

- ⇒ they are to all intents and purposes useless.
- ⇒ Collectively, the employees own the means of production.
 - ★ Collectively, however, whether through their pension funds, through mutual funds, through their retirement accounts, and so on, they own the means of production.
 - The people who exercise the voting power for the employees are themselves employees; take, for example, the civil servants who manage the pension funds of state and local governments in the United States.
 - These pension fund managers are the only true “capitalists” in the United States.
 - The “capitalists” have thus themselves become employees in the post-capitalist knowledge society.
 - ✓ They are paid as employees; they think as employees; they see themselves as employees.
 - ✓ But they act as capitalists.
- ⇒ One implication is that capital now serves the employee, where under Capitalism the employee served capital.
- ⇒ **But a second implication is that we now have to redefine the role, power, and function of both capital and ownership.**
- ⇒ As we shall see in the next chapter, we have to **rethink the governance of corporations.**
- **Labor, capital, and their future**
 - ▲ If KNOWLEDGE is the resource of post-capitalist society, what then will be the future role and function of the two key resources of capitalist (and socialist) society, labor and capital?
 - ▲ **We have moved already into an “employee society” where labor is no longer an asset.**
 - ▲ How much labor is needed—and what kind?
- ⇒ A developed country does indeed need a manufacturing base.
- ⇒ Plenty of people Will always be needed who can bring **only muscle** to the job.
 - ★ With our present knowledge of training, they can quickly be made productive in traditional jobs.
- ⇒ Even more people will be needed who can only bring **manual skills** to the job.
- ⇒ But the greatest employment need of the next decades will be for **“technicians.”**
 - ★ Technicians not only need a high level of skill;
 - ★ they also need a high degree of formal knowledge, and
 - ★ above all a high capacity to learn and to acquire additional knowledge.
- ⇒ If a country has the knowledge base, it will also manufacture.
 - ★ But this manufacturing work will not be competitive if carried out by traditional blue-collar workers who serve the machine.
 - ★ In competitive manufacturing, the work will largely be done by knowledge workers whom the machine serves—as computer consoles and computerized work stations serve the ninety-seven technicians in a steelmaking minimill.
- ⇒ This will create **tremendous problems for developing countries.**
 - ★ They can no longer expect to be able to obtain large numbers of manufacturing jobs by training low-wage people.
- ▲ Capitalism without capitalists
 - ⇒ How to protect such enormous pools of money against looters is one big problem.
 - ⇒ The pension fund and its owners
 - ★ To integrate the pension funds’ real owners, present employees and future pensioners, into the management of the pension fund is a challenge that has not so far been tackled in any country.
 - ⇒ The governance of corporations
 - ★ **The most important question raised by the emergence of the**

PD's View of Developmental Directions

- pension funds (and of the other institutional investors) as the main suppliers of capital and the majority owners of the large businesses is their role and function in the economy.**
- ★ **Their emergence makes obsolete all traditional ways of managing and controlling the large business.**
 - ★ It forces us to think through and redefine the governance of corporations.
 - ★ Instead of being managed “in the best balanced interests of stakeholders,” corporations were now to be managed exclusively to “**maximize shareholder’s value.**”
 - **This will not work, either.**
 - It forces the corporation to be managed for the shortest term.
 - ✓ But that means damaging, if not destroying, the wealth-producing capacity of the business.
 - ✓ It means decline, and fairly swift decline.
 - ★ Long-term results cannot be achieved by piling short-term results on short-term results.
 - ★ They should be achieved by **balancing short-term and long-term needs and objectives.**
 - ★ Furthermore, managing a business exclusively for the shareholders **alienates** the very people on whose motivation and dedication the modern business depends: the knowledge workers.
 - ★ An engineer will not be motivated to work to make a speculator rich.
 - ★ In fact, we know in what areas to set objectives, and how to integrate the pursuit of goals in different areas into a focused strategy.
 - ★ We now know how to integrate business results and financial results.
 - ★ We now know that in a modern economy, an economy of change and innovation, there is no such thing as “profit.”
 - ★ There are only costs: costs of the past (which the accountant
- records) and costs of an uncertain future.
- ★ And the minimum financial return from the operations of the past that is adequate to the costs of the future is the cost of capital, By this measurement, incidentally, all but a handful of American companies have failed to cover their costs in the last thirty years.
- ⇒ Making management accountable
- ★ In other words, we now know what management should be accountable for.
 - ★ But to whom should it be accountable?
 - ★ Pension funds, in other words, can neither manage a business nor walk away from it.
 - ★ They have to make sure that the business is being managed.
 - ★ We therefore can predict with high probability that within the next twenty years we are going to develop what I have been calling a “**business audit.**”
 - ★ It will track the performance of a company and its management against a strategic plan and specific objectives.
- **Productivity of the new work forces (knowledge and service workers)**
- ▲ *Note the differences between this chapter and the chapter in Management Challenges for the 21st Century*
 - ▲ Introduction
 - ⇒ THE NEW CHALLENGE facing the post-capitalist society is the productivity of knowledge workers and service workers.
 - ⇒ **To improve the Productivity of knowledge workers will in fact require drastic changes in the structure of the organizations of post-capitalist society, and in the structure of society itself.**
 - ⇒ Forty years ago, people doing knowledge work and service work formed still less than one third of the work force.
 - ⇒ Today, such people account for three quarters if not four fifths of the work

PD's View of Developmental Directions

force in all developed countries—and their share is still going up.

★ Their productivity, rather than the productivity of the people who make and move things, is the productivity of a developed economy.

★ It is abysmally low.

⇒ Unless we can learn how to increase the productivity of knowledge workers and service workers, and increase it fast, the developed countries will face economic stagnation and severe social tension.

⇒ People can only get paid in accordance with their productivity.

▲ **What are the expected results from this work?"** is the **key question** in making knowledge workers and service workers productive.

⇒ The task is not given; it has to be determined.

⇒ And it is a question that demands risky decisions.

⇒ There is usually no right answer; there are choices instead.

⇒ And results have to be clearly specified, if productivity is to be achieved.

▲ What kind of team?

⇒ There is a second major difference between the productivity of making and moving things and the productivity of knowledge work and service work.

⇒ **In knowledge and service work, we have to decide how the work should be organized.**

⇒ **What kind of human team is appropriate for this kind of work and its flow?**

★ Kinds of teams

□ The first kind of team is exemplified by the baseball or cricket team; it is also the kind of team that operates on a patient in the hospital.

□ The second type of team is the soccer team

□ Finally, there is the doubles tennis team—the team also of the jazz combo or of the four or five senior executives who

together constitute the "President's Office"

★ These three types of teams cannot be mixed.

□ One cannot play baseball and soccer with the same team on the same field at the same time.

□ The three teams must also be "pure"; they cannot be hybrids.

★ **And to change from one team to another is exceedingly difficult and painful.**

□ **Yet any major change in the nature of the work, its tools, its flow, and its end product may require changing the team.**

□ This is particularly true with respect to any change in the flow of information.

★ Information sources for different teams

□ In the baseball-type team, players get their information from the situation.

□ In the symphony orchestra or the soccer team, the information comes largely from conductor or coach.

✓ They control the "score."

□ In the doubles tennis team, the players get their information largely from each other.

□ This explains why the change in information technology, and the move to what I have called the "information-based organization" has made necessary massive "re-engineering."** {See The New Realities, Chapter 14.}

▲ The need to concentrate

⇒ **Concentration on job and task is the last prerequisite for productivity in knowledge and service work.**

⇒ In knowledge work and in most service work, where the machine (if any) is a servant to the worker, productivity requires the elimination of whatever activities do not contribute to performance.

⇒ **Defining performance; determining the appropriate work flow; setting up the right team; and concentrating**

PD's View of Developmental Directions

- on work and achievement are prerequisites for productivity in knowledge work and service work.**
- ⇒ Only when they have been done can we begin the work on making productive the individual job and the individual task.
- ▲ Restructuring organizations
 - ⇒ **Improving the productivity of knowledge workers and service workers will demand fundamental changes in the structure of organizations.**
 - ⇒ **It may even require totally new organizations.**
 - ⇒ Re-engineering the team so that work can flow properly will lead to the elimination of most “management layers.”
 - ⇒ In fact, the word “rank” should disappear totally from the vocabulary of knowledge work and knowledge worker.
 - ⇒ It should be replaced by “assignment.”
 - ⇒ **This shift will raise tremendous problems of motivation, of reward, and of recognition.**
- ▲ The case for outsourcing
 - ⇒ **Even more drastic, indeed revolutionary, are the requirements for obtaining productivity from service workers.**
 - ⇒ Service work in many cases will be contracted out of the organization to whom the service is being rendered.
 - ⇒ This applies particularly to support work, such as maintenance, and to a good deal of clerical work.
 - ⇒ “Outsourcing,” moreover, will be applied increasingly to such work as drafting for architects and to the technical or professional library.
 - ⇒ One driving force behind outsourcing is the need to make service workers productive.
 - ⇒ The greatest need for increased productivity is in activities which do not lead to promotion into senior management within the organization.
 - ⇒ Outsourcing is necessary not just because of the economics involved.
 - ★ It is necessary because it provides opportunities, income, and dignity for service workers.
- ⇒ **This means a radical change in structure for the organizations of tomorrow.**
 - ★ It means that the big business, the government agency, the large hospital, the large university will not necessarily be the one that employs a great many people.
 - ★ It will be the one that has substantial revenues and substantial results—achieved in large part because it itself does only work that is focused on its mission; work that is directly related to its results; work that it recognizes, values, and rewards appropriately.
- ▲ Averting a new class conflict
 - ⇒ Now, a rapid increase in the productivity of service workers is required to avert the danger of a new “class conflict” between the two new dominant groups in the post-capitalist society: knowledge workers and service workers.
 - ⇒ To make service work productive is thus the first social priority of the post-capitalist society, in addition to being an economic priority.
 - ⇒ But there is a danger that the post-capitalist society will become a class society unless service workers attain both income and dignity.
 - ★ This requires productivity.
 - ★ But it also requires opportunities for advancement and recognition.
 - ⇒ The structure of the post-capitalist society will therefore be different from either the earlier capitalist or the socialist society.
 - ★ There, organizations tried to encompass the maximum of activities.
 - ★ **Organizations of the post-capitalist society, by contrast, will concentrate on their core tasks.**
 - For the rest, they will work with other organizations in a bewildering variety of alliances and partnerships.
 - ★ Both capitalist and socialist societies were, to use a scientific metaphor, “crystalline” in their structure.

PD's View of Developmental Directions

- ★ Post-capitalist society is more likely to resemble a liquid.
- **The responsibility-based organization**
 - ▲ Introduction
 - ⇒ POLITICAL AND SOCIAL THEORY, since Plato and Aristotle, has focused on power.
 - ⇒ **But responsibility must be the principle which informs and organizes the post-capitalist society.**
 - ⇒ The society of organizations, the knowledge society, demands a responsibility-based organization.
 - ★ Organizations must take responsibility for the limit of their power, that is, for the point at which exercising their function ceases to be legitimate.
 - What is legitimate power?
 - What are its limits?
 - What should they be?
 - ★ Organizations have to take “social responsibility.”
 - There is no one else around in the society of organizations to take care of society itself.
 - Yet they must do so responsibly, within the limits of their competence, and without endangering their performance capacity.
 - ★ Finally, organizations themselves must be built on responsibility from within, rather than on power or on command and control.
 - ▲ What is social responsibility?
 - ⇒ The organizations of the society of organizations are special-purpose organs.
 - ⇒ Each is good at only one task; and this specialization alone gives them their capacity to perform.
 - ⇒ Organizations can only do damage to themselves and to society if they tackle tasks that are beyond their specialized competence, their specialized values, their specialized functions.
 - ⇒ And yet who else is there to take care of society, its problems and its ills?
 - ⇒ These organizations collectively are society.
- ⇒ But economic performance is not the sole responsibility of a business.
- ⇒ Nor is educational performance the sole responsibility of a school or health-care performance the sole responsibility of a hospital.
- ⇒ The demand for the social responsibility of organizations will not go away.
- ⇒ We do know, if only in rough outline, what the answer to the social responsibility problem has to be.
- ▲ Power and organizations
 - ⇒ There is a **further limit to the social action of organizations** within the society of organizations: They are social institutions.
 - ★ **They have neither legitimacy nor competence in politics.**
 - ⇒ **The first answer to this problem is that no organization must be allowed power unless it is absolutely necessary to the discharge of its function.**
 - ★ Anything beyond this must be viewed as usurpation.
 - ⇒ **A second answer is that the exercise of the organization's legitimate power must be safeguarded against the abuse of power.**
 - ★ There must be clear and public rules for its exercise, and there must be review and appeal to some person or some tribunal that is impartial and not part of the problem.
 - ★ There must be what lawyers call “due process.”
 - ⇒ **But the most important answer to the problem of the power of the organization is conversion from a power-based to a responsibility-based organization.**
 - ⇒ It is the only answer, moreover, that fits the knowledge organization.
- ▲ From command to information
 - ⇒ By 1970, information had begun to transform organizations.
 - ⇒ We soon learned that the introduction into organization of information as a structural and organic element means the elimination of many, if not most, layers of management.

PD's View of Developmental Directions

- ⇒ In the traditional organization, most of the people called “managers” do not actually manage; they relay orders downward and information upward.
- ⇒ When information becomes available, they become redundant.
- ⇒ But today we have to go beyond the information-based organization to the responsibility-based organization.
- ⇒ And in knowledge work, as we have seen, the organization is increasingly composed of specialists, each of whom knows more about his or her own specialty than anybody else in the organization.
- ⇒ **The old-type organization assumed that the superior knew what the subordinate was doing for the superior, only a few years earlier, had occupied the subordinate's position.**
- ⇒ **The knowledge-based organization, by contrast, has to assume that superiors do not know the job of their subordinates.**
 - ★ They have never held it.
- ⇒ **... in knowledge-based organizations, there is frequently no one who knows enough about the work of the specialist to appraise what that specialist actually contributes.**
- ▲ From information to responsibility
 - ⇒ **The knowledge-based organization therefore requires that everyone take responsibility for that organization's objectives, contribution, and, indeed, for its behavior as well.**
 - ⇒ This implies that all members of the organization must think through their objectives and their contributions, and then take responsibility for both.
 - ⇒ It implies that there are no “subordinates”; there are only “associates.”
 - ⇒ Furthermore, in the knowledge-based organization all members have to be able to control their own work by feedback from their results to their objectives.—What forty years ago, in *The Practice of Management* (1954), I called “Management by Objectives and Self-Control.”
- ⇒ All members must ask themselves: “What is the one major contribution to this organization and its mission which I can make at this particular time?”
- ⇒ It requires, in other words, that all members act as responsible decision makers.
- ⇒ All members have to see themselves as “executives.”
- ⇒ Next it is the responsibility of all members to communicate their objectives, their priorities, and their intended contributions to their fellow workers—up, down, and sideways.
- ⇒ And it is the responsibility of all members to make sure that their own objectives fit in with the objectives of the entire group.
- ⇒ Even organizations which at first glance do only low-skilled or unskilled work need to be restructured as responsibility-based organizations.
 - ★ A small number of companies—one in Denmark, one in the United States, one in Japan—have been successful in greatly increasing the productivity of people who do unskilled, indeed menial, work, such as maintenance workers in hospitals, factories, or office buildings.
 - ★ They have achieved these increases by demanding responsibility from the very lowliest of their employees, those who start with a pail and a broom to clean floors, or those who clean offices after hours—for objectives, for contribution, for the performance of the entire team.
 - These people know more about their jobs than anybody else.
 - And when they are held responsible, they act responsibly.
- ▲ To make everybody a contributor
 - ⇒ There is a great deal of talk today about “entitlement” and “empowerment.”
 - ★ These terms express the demise of the command and control-based organization.

PD's View of Developmental Directions

- ★ But they are just as much terms of power and rank as the old terms were.
- ⇒ We should instead be talking about responsibility and contribution.
- ⇒ Our aim should be to make people be more responsible.
- ⇒ What we ought to be asking is not, "What should you be entitled to?" but, "What should you be responsible for?"
- ⇒ The task of management in the knowledge-based organization is not to make everybody a boss.
- ⇒ It is to make everybody a contributor.

(11) Knowledge: its economics and its productivity

- The economics of knowledge
 - ▲ ... in the knowledge economy, imperfect competition seems to be inherent in the economy itself
 - ⇒ Initial advantages gained through early application and exploitation of knowledge (that is, through what has come to be known as the "learning curve") become permanent and irreversible.
 - ⇒ What this implies is that neither free trade economics nor protectionism will by themselves work as economic policies.
 - ★ The knowledge economy seems to require both in balance.
 - ▲ Another of the economists' basic assumptions is that an economy is determined either by consumption or by investment.
 - ⇒ In the knowledge economy, neither seems to be in control.
 - ⇒ There is no shred of evidence that increased consumption in the economy leads to greater production of knowledge.
 - ⇒ But there is also no shred of evidence that greater investment in the economy leads to greater production of knowledge.
 - ▲ When it comes to new knowledge, there are three kinds (as already discussed in Chapter 4 above).
 - ⇒ There is first the continuing improvement of process, product, service; the Japanese, who do it best, call this Kaizen.
 - ⇒ Then there is exploitation: the continuous exploitation of existing knowledge to develop new and different products, processes, and services.
 - ⇒ Finally, there is genuine innovation.
 - ▲ These three ways of applying knowledge to produce change in the economy (and in society as well) need to be worked at together and at the same time.
 - ⇒ They are all equally necessary.
- ⇒ But their economic characteristics-their costs as well as their economic impacts-are qualitatively different.
- ⇒ So far, at least, it is not possible to quantify knowledge.
- The productivity of knowledge
 - ▲ Knowledge does not come cheap.
 - ▲ **Knowledge formation** is thus already the **largest investment** in every developed country.
 - ▲ Surely, the return which a country or a company gets on knowledge must increasingly be a determining factor in its competitiveness.
 - ▲ Increasingly, productivity of knowledge will be decisive in its economic and social success, and in its entire economic performance.
 - ▲ And we know that there are tremendous differences in the productivity of knowledge between countries, between industries, between individual organizations.
- The management requirements
 - ▲ We do not have an economic theory of the productivity of knowledge investment; we may never have one.
 - ▲ But we have management precepts.
 - ⇒ We know above all that making knowledge productive is a management responsibility.
 - ⇒ It requires systematic, organized application of knowledge to knowledge.
 - ⇒ The first rule may well be that knowledge has to aim high to produce results.
 - ★ The steps may be small and incremental but the goal must be ambitious.
 - ★ If you have results (and it's a big 'if'), you'd better have them where they'll make a difference.
 - ⇒ To make knowledge productive further requires that it be clearly focused.
 - ★ It has to be highly concentrated.
 - ★ Whether done by an individual or by a team, the knowledge effort requires purpose and organization.
 - ★ It is not "flash of genius."
 - ★ It is hard work.
 - ⇒ To make knowledge productive also requires the systematic exploitation of opportunities for change what in an

PD's View of Developmental Directions

earlier book I called the "Seven Windows of Innovation." (Innovation and Entrepreneurship).

- ★ These opportunities have to be matched with the competences and strengths of the knowledge worker and the knowledge team.

- ⇒ To make knowledge productive finally requires managing time.

- ★ High knowledge productivity—whether in improvement, in exploitation, or in innovation—comes at the end of a long gestation period.

- ★ Yet productivity of knowledge also requires a constant stream of short-term results.

- ★ It thus requires the most difficult of all management achievements: balancing the long term with the short term.

- ▲ Our experience in making knowledge productive has so far been gained mainly in the economy and technology.

- Only connect ...

- ▲ The productivity of knowledge requires increasing the yield from what is known—whether by the individual or by the group.

- ▲ The main reason is that we do not mobilize the multiple knowledges we possess.

- ⇒ We do not use knowledges as part of one toolbox.

- ⇒ Instead of asking: "What do I know, what have I learned, that might apply to this task?"

- ⇒ We tend to classify tasks in terms of specialized knowledge areas.

- ⇒ In usage, we have to focus on the end result, on the task, on the work.

- ▲ "Only connect" was the constant admonition of a great English novelist, E.M. Forster.

- The productivity of knowledge is going to be the determining factor in the competitive position of a company, an industry, an entire country.

- ▲ No country, industry, or company has any "natural" advantage or disadvantage.

- ▲ The only advantage it can possess is the ability to exploit universally available knowledge.

- ▲ The only thing that increasingly will matter in national as in international economics is

management's performance in making knowledge productive.

(12) What it means to be a manager & what is management?

- What it means to be a manager
 - ▲ When I (Peter Drucker) first began to study management, during and immediately after World War II,
 - ⇒ A manager was defined as “someone who is responsible for the work of subordinates.”
 - ⇒ A manager in other words was a “boss,” and management was rank and power.
 - ⇒ This is probably still the definition a good many people have in mind when they speak of “managers” and “management.”
 - ▲ But by the early 1950s
 - ⇒ the definition of a manager had already changed to
 - ⇒ one who “is responsible for the performance of people.”
 - ▲ Today, we know that that is also too narrow a definition
 - ⇒ The right definition of a manager is one who “is **responsible for the application and performance of knowledge.**”
- All managers do the same things whatever the business of their organization.
 - ▲ Bring people—each of them possessing a different knowledge—together for joint performance.
 - ▲ Make human strengths productive in performance and human weaknesses irrelevant.
 - ▲ Think through what are “results” in the organization—and have then to define objectives.
 - ▲ Think through what I call the “theory of the business,” that is, the assumptions on which the organization bases its performance and actions, and equally, the assumptions which organizations make to decide what things not to do.
 - ▲ Require an organ that thinks through strategies, that is, the means through which the goals of the organization become performance.
 - ▲ Define the values of the organization, its system of rewards and punishments, and with its spirit and its culture.
- ▲ Managers need both
 - ⇒ the knowledge of management as work and discipline, and
 - ⇒ the knowledge and understanding of the organization itself, its purposes, its values, its environment and markets, its core competencies.
- Its evolution & history teach that it is a few, essential principles
 - ▲ Joint human performance
 - ⇒ Management’s task
 - ★ Make people capable of joint performance
 - Strengths effective
 - Weaknesses irrelevant
 - ⇒ This is what organization is all about
 - ▲ Management is embedded in culture
 - ⇒ In developing countries, the manager’s basic challenge
 - ★ Find and identify building blocks that can be used in how they manage
 - Tradition
 - History
 - Culture
- ▲ Direction
 - ⇒ Commitment to ...
 - ★ Common goals
 - Clear
 - Public
 - Often reaffirmed
 - ★ Shared values
 - ⇒ Without commitment there is no enterprise, there is only a mob
 - ⇒ Objectives
 - ★ Simple
 - ★ Clear
 - ★ Unifying
 - ⇒ Mission — big enough & clear enough to provide common vision
 - ⇒ Management’s job ... those objectives, values, goals
 - ★ Think through
 - ★ Set
 - ★ Exemplify
- ▲ Growth and development
 - ⇒ As needs and opportunities change
 - ⇒ The enterprise ...
 - ★ Learning and teaching institution
 - ★ Training and development
 - Built into all levels
 - Each of its members
 - Never stops

PD's View of Developmental Directions

- ▲ Communication and individual responsibility
 - ⇒ Enterprise is composed of people of...
 - ★ Different skills
 - ★ Different knowledge
 - ★ Doing many different kinds of work
 - ⇒ All members need to think through what they ...
 - ★ Aim to accomplish
 - Make sure associates
 - ✓ Know
 - ✓ Understand
 - ★ Owe to others
 - Make sure associates
 - ✓ Understand
 - ✓ Approve
 - ★ Need from others
 - Make sure associates
 - ✓ Know what is expected of them
- ▲ Performance
 - ⇒ Neither quantity of output nor "bottom line" is by itself an adequate measure of management and enterprise
 - ⇒ Built into ...
 - ★ Enterprise
 - ★ Its management
 - ⇒ Measured or at least judged
 - ★ Diversity of measures (just like human health or performance)
 - ★ Areas crucial to a company's performance and survival
 - Market standing
 - Innovation
 - Productivity
 - Development of people
 - Quality
 - Financial results
 - ⇒ Continuously improved
- ▲ Outside results
 - ⇒ The single most important thing to remember
 - ★ Results exist only on the outside
 - ★ Inside an enterprise, there are only costs.
 - ⇒ Business
 - ★ Satisfied customer
 - ⇒ Hospital
 - ★ Healed patient
 - ⇒ School
 - ★ Student learned something
 - ★ Puts it to work ten years later

(13) Theory of the business

- What to do is increasingly becoming the central challenge facing managements (especially those of big companies that have enjoyed long-term success)
 - ▲ The root cause of nearly every one of these crises is not that things are being done poorly.
 - ▲ It is not even that the wrong things are being done.
 - ▲ Indeed, in most cases, the right things are being done—but fruitlessly.
- The assumptions on which the organization has been built and is being run no longer fit reality.
 - ▲ These are the assumptions that shape any organization's behavior, dictate its decisions about what to do and what not to do, and define what the organization considers meaningful results.
 - ⇒ These assumptions are about markets.
 - ⇒ They are about identifying customers and competitors, their values and behavior.
 - ⇒ They are about technology and its dynamics, about a company's strengths and weaknesses.
 - ⇒ These assumptions are about what a company gets paid for.
- Every organization, whether a business or not, has a theory of the business.
- Indeed, a valid theory that is clear, consistent, and focused is extraordinarily powerful.
- Whenever a big organization gets into trouble—and especially if it has been successful for many years people blame sluggishness, complacency, arrogance, mammoth bureaucracies.
 - ▲ But rarely relevant or correct.
- A theory of the business has three parts.
 - ▲ First, there are assumptions about the environment of the organization: society and its structure, the market, the customer, and technology.
 - ⇒ The assumptions about environment define what an organization is paid for.
 - ▲ Second, there are assumptions about the specific mission of the organization.
 - ⇒ Sears, Roebuck and Company, in the years during and following World War I, defined its mission as being the informed buyer for the American family.
 - ⇒ A decade later, Marks and Spencer in Great Britain defined its mission as being the change agent in British society by becoming the first classless retailer.
 - ⇒ AT&T, again in the years during and immediately after World War I, defined its role as ensuring that every U.S. family and business have access to a telephone.
 - ⇒ An organization's mission need not be so ambitious.
 - ⇒ GM envisioned a far more modest role—as the leader in “terrestrial motorized transportation equipment,” in the words of Alfred P. Sloan, Jr.
 - ⇒ The assumptions about mission define what an organization considers to be meaningful results; in other words, they point to how it envisions itself making a difference in the economy and in the society at large.
 - ▲ Third, there are assumptions about the core competencies needed to accomplish the organization's mission.
 - ⇒ For example, West Point, founded in 1802, defined its core competence as the ability to turn out leaders who deserve trust.
 - ⇒ Marks and Spencer, around 1930, defined its core competence as the ability to identify, design and develop the merchandise it sold, instead of the ability to buy.
 - ⇒ AT&T, around 1920, defined its core competence as technical leadership that would enable the company to improve service continuously while steadily lowering rates.
 - ⇒ Finally, the assumptions about core competencies define where an organization must excel in order to maintain leadership.
- It usually takes years of hard work, thinking, and experimenting to reach a clear, consistent, and valid theory of the business.
- **Four specifications of a valid theory of the business**
 - ▲ The assumptions about environment, mission, and core competencies must fit reality.

PD's View of Developmental Directions

- ▲ The assumptions in all three areas have to fit one another.
- ▲ The theory of the business must be known and understood throughout the organization.
- ▲ The theory of the business has to be tested constantly.
 - ⇒ It is not graven on tablets of stone.
 - ⇒ It is a hypothesis And it is a hypothesis about things that are in constant flux—society, markets, customers, technology.
 - ⇒ And so, built into the theory of the business must be the ability to change itself.
 - ⇒ Some theories of the business are so powerful that they last for a long time.
 - ⇒ The first reaction of an organization whose theory is becoming obsolete is almost always a defensive one.
 - ★ The tendency is to put one's head in the sand and pretend that nothing is happening.
 - ⇒ The next reaction is an attempt to patch, as GM did in the early 1980s or as Deutsche Bank is doing today.
 - ★ But patching never works.
 - ⇒ Instead, when a theory shows the first signs of becoming obsolete, it is time to **start thinking again**, to ask again which assumptions about the environment, mission, and core competencies reflect reality most accurately—with the clear premise that our historically transmitted assumptions, those with which all of us grew up, no longer suffice.
 - ⇒ There is a need for **preventive care**—that is, for building into the organization systematic monitoring and testing of its theory of the business.
 - ★ There is a need for **early diagnosis**.
 - ★ Finally, there is a need to rethink a theory that is stagnating and to take effective action in order to change policies and practices, bringing the organization's behavior in line with the new realities of its environment, with a new definition of its mission, and with new core competencies to be developed and acquired.
- ★ There are only two **preventive measures**.
 - But if used consistently, they should keep an organization alert and capable of rapidly changing itself and its theory.
 - The first measure is what I call **abandonment**.
 - ✓ Every three years, an organization should challenge every product, every service, every policy, every distribution channel with the question, If we were not in it already, would we be going into it now?
 - The second preventive measure is to **study what goes on outside the business, and especially to study noncustomers**.
 - ✓ But the first signs of fundamental change rarely appear within one's own organization or among one's own customers.
 - ✓ An organization must be market driven too.
- ★ To diagnose problems early, managers must pay attention to the warning signs.
 - A theory of the business always becomes obsolete when an organization **attains its original objectives**.
 - ✓ Attaining one's objectives, then, is not cause for celebration; it is cause for new thinking.
 - **Rapid growth** is another sure sign of crisis in an organization's theory.
 - There are two more **clear signals** that an organization's theory of the business is no longer valid.
 - ✓ One is unexpected success—whether one's own or a competitor's.
 - ✓ The other is unexpected failure—again, whether one's own or a competitor's.

PD's View of Developmental Directions

- ⇒ Traditionally, we have searched for the **miracle worker with a magic wand** to turn an ailing organization around.
- ★ To establish, maintain, and restore a theory, however, does not require a Genghis Khan or a Leonardo da Vinci in the executive suite.
 - ★ It is not genius; it is hard work.
 - ★ It is not being clever; it is being conscientious.
 - ★ We can't rely on miracle workers to rejuvenate an obsolete theory of the business any more than we can rely on them to cure other types of serious illness.
 - ★ And when one talks to these supposed miracle workers, they deny vehemently that they act by charisma, vision, or, for that matter, the laying on of hands.
 - They start out with diagnosis and analysis.
 - They accept that attaining objectives and rapid growth demand a serious rethinking of the theory of the business.
 - They do not dismiss unexpected failure as the result of a subordinate's incompetence or as an accident but treat it as a symptom of "systems failure."
 - They do not take credit for unexpected success but treat it as a challenge to their assumptions.
 - They accept that a theory's obsolescence is a degenerative and, indeed, life-threatening disease.
 - And they know and accept the surgeon's time-tested principle, the oldest principle of effective decision making: A degenerative disease will not be cured by procrastination.
 - It requires decisive action.

(14) Introduction to the Executive in Action

- ❑ There are many how to do it management books but few tell the executive what to do let alone why.
 - ❑ There are equally a great deal of what to do management books, but few of them tell the executive how to do it.
 - ❑ Yet treatment without diagnosis is as useless as diagnosis without treatment.
 - ❑ And in any practice the two go together.
 - ❑ And management is a practice
 - ❑ The three books of mine, here brought together in one volume embrace the three dimensions of the successful practice of management:
 - ▲ managing the existing business (Managing for Results)
 - ▲ changing tomorrow's business (Innovation & Entrepreneurship) and
 - ▲ managing oneself (The Effective Executive)
 - ❑ Each of these books is distinct and self contained, yet in the executive's work the three are always joined.
 1. Managing the existing business is the first day-to-day task no matter how clear the executive's vision.
 - ⇒ No matter how brilliantly she or he plans for the future and innovates, today's business has to be managed for results now or there will be no tomorrow.
 - ⇒ What knowledge is needed for that job, what actions have to be taken, what pitfalls to be avoided and what results should and perhaps must be attained.
 2. Conversely the seemingly most successful business of today is a sham and a failure if it doesn't create its own and different tomorrow.
 - ⇒ It must innovate and recreate its products and services, but equally the enterprise itself.
 - ⇒ Business is society's change agent, all other main institutions of society are designed to conserve if not prevent change.
 - ⇒ Business alone is designed to innovate.
 - ⇒ No business will long survive, let alone prosper unless it innovates successfully.
- ⇒ And neither innovation or entrepreneurship are flash of genius, they are disciplines and require concepts tools and organized, systematic work.
3. Finally no matter how brilliant individual executives are or how hard they work, they will be failures and their efforts will be futile unless they are effective.
 - ⇒ It is not so terribly difficult to be an effective executive. All it requires are a few habits, that is doing a few things day in and day out and not doing a few other things.
 - ⇒ Yet few of the many executives with whom I have worked over my more than 50 years were truly effective.
 - ⇒ They were mostly very bright, worked mostly very hard, yet had little to show for their ability, their knowledge, their hard work.
 - ⇒ The reason is simply that modern organization and with it executives in significant numbers only emerged a little over a century ago and the human race is a slow learner.
 - ⇒ To be sure though there have been naturals throughout human history, the most effective executive on record of whom we have any information was surely the minister of an ancient Egyptian Pharaoh who almost 4250 years ago conceived the first pyramid with out any precedent whatever for such an edifice, designed it and built it and still stands today without much having to be re-engineered and he did it without any management books to help him, surely without having an MBA.
 - ⇒ But we need far too many executives to depend on geniuses.
 - ⇒ And then there is a need for a discipline and the discipline of being an effective executive.
- ❑ Together these three books should enable executives, whether high up in the organization or just beginning their career, but also those men and women today who are studying to become executive tomorrow to know the right things to do, know how to do them and to do them effectively. Together the three books provide the tools kits for effective action.

PD's View of Developmental Directions

Written in 1996

PD's View of Developmental Directions

(15b) Requisites of competitive success

- Purpose of a business is to create & keep a customer.
 - ▲ To do that you have to
 - ⇒ Produce & deliver goods & services that:
 - ★ people want & value
 - ★ at prices &
 - ★ under conditions
 - ★ that are reasonably attractive relative to competition
 - ⇒ To a proportion of customers large enough to make those prices & conditions possible
 - ▲ To continue to do that the enterprise must
 - ⇒ Produce revenues in excess of costs to attract & hold investors in the enterprise
 - ★ in sufficient quantity
 - ★ with sufficient regularity
 - ⇒ Stay abreast and sometimes ahead of competitive offerings
- This Requires
 - ▲ Clarity of:
 - ⇒ purposes
 - ⇒ strategies
 - ⇒ plans
 - ▲ In large organizations:
 - ⇒ written down
 - ⇒ clearly communicated
 - ⇒ frequently reviewed by senior members of the enterprise.
 - ▲ Appropriate system of
 - ⇒ Rewards, audits, and controls
 - ⇒ To assure that what's intended
 - ★ gets done
 - ★ & rectified when not.

(15c) Customers, money, and conscience

- Business is about only two things—money and customers
 - ▲ It takes
 - ⇒ Money to get started
 - ⇒ Customers to keep going
 - ⇒ More money to
 - ★ hold on to existing customers and
 - ★ attract new ones
 - ▲ Hence the two central activities of every business are marketing and finance
 - ▲ Finance

- ⇒ Deals with the acquisition, management, and control of money
 - ★ Activities that are always strained and competitive.
 - ★ You
 - get money by competing for it
 - dispense money among contenders for it
 - control money by overseeing its use by other people (who'd rather be left alone)
- ⇒ A company cannot have too much capital
 - ★ The amount of capital a company needs depends on:
 - the intensity of the competition it faces
 - the nature, pace, and acceleration of its industry
 - ✓ The greater the acceleration, the more capital is needed to
 - * keep up
 - * let alone get ahead.
- ⇒ When capital gets short or beyond easy reach
 - ★ This quickly creates constraints
 - ★ It generates resistance and a grudging attitude toward spending money for things that are not instantly self-justifying, especially:
 - innovation
 - experimentation
 - R&D
 - organization development
 - new equipment to replace the still working old
 - hiring and nurturing the people on whose enterprise and initiative the future of the enterprise depends
 - ★ Nothing distorts possibilities and inhibits enterprise so much as the absence of funds necessary for enterprise
- ⇒ It is almost impossible for a company
 - ★ to have too much money
 - ★ to have more than it can use to help shape its own thriving future
- ⇒ This does not mean it should have a cash-rich balance sheet or be indifferent to economy
- ⇒ Only that it should have such an abundance of capital, or such reliable

PD's View of Developmental Directions

access to it as to feel easily comfortable about doing what ought to be done.

- ⇒ Possessed of some character, conscience, and even nobility
- ⇒ Without these nothing else is worth saying or prescribing

▲ Marketing

- ⇒ Gets customers by inducing them to switch from competitors
- ⇒ Keeps customers by staying better than competitors
- ⇒ Creates entirely new customers by offering things of such irresistibility that they shatter people's
 - ★ natural inertia
 - ★ indifference or
 - ★ active sales resistance
- ⇒ A company cannot have too many customers
- ⇒ Everybody should constantly consider the financial and customer getting consequences of everything
 - ★ of what's being done
 - ★ of what's being contemplated
 - ★ of what's not being done
- ⇒ If something doesn't pass one or preferably both these tests, something is wrong
- ⇒ It calls for action—and now, not later

□ A manager cannot have too much decency

▲ It matters how people feel about ...

- ⇒ the moral legitimacy and social worth of what they do and
- ⇒ the people with whom they are associated

▲ The world's work is not naturally noble

- ⇒ Its outcomes are not automatically symmetrical or benign

▲ To force all business decision making and actions into the fixed vortex of customers and financial considerations

- ⇒ Imposes a harsh and narrow discipline.
- ⇒ It is a necessary and compelling discipline
 - ★ but never sufficient
 - ★ and often nasty
- ⇒ Standing alone, ungoverned by higher values and commands, it can and usually does become grotesque

▲ The people who lead and manage

- ⇒ Moral gyroscope of sorts
- ⇒ Some ethical standards
- ⇒ Some sense of social duty and decency
- ⇒ Some guiding principles of right and wrong

(16) Planning for uncertainty

- Uncertainty—in the economy, society, politics—has become so great as to **render futile**, if not counterproductive, **the kind of planning most companies still practice**: forecasting based on probabilities.
 - ▲ Unique events, such as the Perot phenomenon or the dissolution of the Soviet empire, have no probability.
- Yet executives have to make decisions that commit to the future current resources of time and money.
 - ▲ The lengths of such commitments are steadily growing: in strategy and technology, marketing, manufacturing, employee development, in the time it takes to bring a new plant on stream or in the years until a commitment to a store location pays for itself.
 - ▲ Every such commitment is based on assumptions about the future.
- Worse, they have to make decisions not to commit resources—to forgo the future.
- To arrive at them, traditional planning asks, “What is most likely to happen?”
- Planning for uncertainty asks, instead, “What has already happened that will create the future?”
 - ▲ Demographic changes
 - ⇒ Business people need to ask: “What do these accomplished facts mean for our business?”
 - ★ What opportunities do they create?
 - ★ What threats?
 - ★ What changes do they demand—in the way the business is organized and run, in our goals, in our products, in our services, in our policies?
 - ★ And what changes do they make possible and likely to be advantageous?”
 - ▲ The next question is: “What changes in industry and market structure, in basic values (e.g., the emphasis on the environment), and in science and technology have already occurred but have yet to have full impact?”
 - ⇒ It is commonly believed that innovations create changes—but very few do.
 - ★ Successful innovations exploit changes that have already happened.
 - ⇒ They exploit the time lag—in science, often twenty-five or thirty years—between the change itself and its perception and acceptance.
 - ⇒ During that time the exploiter of the change rarely faces much, if any, competition.
 - ⇒ The other people in the industry still operate on the basis of yesterday's reality.
 - ⇒ And once such a change has happened, it usually survives even extreme turbulence.
 - ▲ Closely related are the next questions: “What are the trends in economic and societal structure?”
 - ⇒ And how do they affect our business?”
 - ⇒ Similar structural trends can be found in most industries and markets.
 - ⇒ They do not make the “weather” for an industry or a company—they create the “climate.”
 - ⇒ Over any short-term period their effects are slight.
 - ⇒ But in the not-so-long run these structural trends are of far greater importance than the short-term fluctuations to which economists, politicians, and executives give all their attention.
 - ⇒ Whoever exploits structural trends is almost certain to succeed.
 - ⇒ It is hard, however, to fight them in the short run and almost hopeless in the long run.
 - ⇒ When such a structural trend peters out or when it reverses itself (which is fairly rare), those who continue as before face extinction and those who change fast face opportunity.
 - ⇒ The most important structural trends are those that many executives have never heard of: in the distribution of consumers' disposable income.
- The answers to the question “What has already happened that will make the future?”

PD's View of Developmental Directions

- define the potential of opportunities for a given company or industry.
- To convert this potential into reality requires matching the opportunities with the company's strengths and competence.
 - ▲ It requires what I first (in my 1964 book *Managing for Results*) presented as "strength analysis" and what now—thanks mainly to the work of Professors C. K. Prahalad and Gary Hamel—is coming to be known as the analysis of "core competence."
 - There is, however, one condition: that the business create the resources of knowledge and of people to respond when **opportunity knocks**.
 - ▲ This means developing a separate futures budget.
 - ▲ The 10 percent or 12 percent of annual expenditures needed to create and maintain the resources for the future—in research and technology, in market standing and service, in people and their development—must be put into a constant budget maintained in good years and bad.
 - ▲ These are investments, even though accountants and tax collectors consider them operating expenses.
 - ▲ They enable a business to make its future—and that, in the last analysis, is what planning for uncertainty means.

(17) Five business sins

- ❑ The past few years have seen the downfall of one once dominant business after another: General Motors, Sears, and IBM, to name just a few.
- ❑ But in every case the main cause has been at least one of the five deadly business sins avoidable mistakes that will harm the mightiest business.
- ❑ The five sins
 - ▲ Worship of high profit margins and of "premium pricing."
 - ▲ Mispricing a new product by charging "what the market will bear."
 - ▲ Cost-driven pricing
 - ▲ Slaughtering tomorrow's opportunity on the altar of yesterday.
 - ▲ Feeding problems and starving opportunities.
- ❑ Everything I have been saying in this article has been known for generations.
- ❑ Everything has been amply proved by decades of experience.
- ❑ They are temptations that must be resisted.

(18) Manufacturing of the future

- Sidebar:
 - ▲ "Altogether, there are no more service industries in the traditional sense.
 - ▲ There are only production industries.
 - ▲ And to the extent that they apply principles of production that traditionally were considered manufacturing, they become competitive and successful." Peter Drucker
 - For manufacturing executives, Drucker's The Emerging Theory of Manufacturing (Harvard Business Review, May-June 1990) is particularly notable.
 - ▲ "Statistical Quality Control is changing the social organization of the factory.
 - ▲ The new manufacturing accounting lets us make production decisions as business decisions.
 - ▲ The 'flotilla,' or module, organization of the manufacturing process promises to combine the advantages of standardization and flexibility.
 - ▲ Finally, the systems approach embeds the physical process of making things, that is, manufacturing, in the economic process of business, that is, the business of creating value."
 - Article highlights
 - ▲ If we redefine manufacturing as "the systematic process of production," manufacturing is indeed the most important part of any world-class economy.
 - ▲ The most important technical change in the last 30 or 40 years is that of the process of production, first developed in traditional manufacturing and now embracing more and more of the economy.
 - ▲ It is becoming the process of production.
 - ▲ It does not necessarily produce goods.
 - ▲ But the new "goods"—goods still usually classified as "services"—increasingly are being organized on the principles of production that were first developed in manufacturing.
 - ▲ One example is economic-chain accounting, which is rapidly coming in, and which enables an enterprise to see the total costs and their yields throughout the entire economic process from supplier to ultimate consumer.
- ⇒ Traditional accounting still is based on the legal entity, the "firm."
 - ⇒ But even General Motors, at the peak of its power around 1970 when it produced about 70% of everything that went into a GM car, accounted for no more than one-tenth of what the ultimate consumer paid for the finished car.
 - ⇒ This is being changed rapidly as economic-chain accounting enables an enterprise to know the entire cost stream from supplier until ultimate consumer (and perhaps even until the car is scrapped), and to move costs to where they produce the most yield.
 - ▲ In his 1912 testimony before the U.S. Congress, Frederick W. Taylor said that the Mayo Clinic was the one example of systematic scientific management.
 - ▲ Altogether, the greatest impact on manufacturing industries has been that the power has shifted to distributors and retailers.

(19) Social sector (non-profits)

- Social needs will grow in two areas
 - ▲ They will grow, first, in what has traditionally been considered charity: helping the poor, the disabled, the helpless, the victims.
 - ▲ And they will grow, perhaps even faster, in respect to services that aim at changing the community and at changing people.
 - Strengthening non-profits
 - ▲ America needs a new social priority: to triple the productivity of the non-profits and to double the share of gross personal income—now just below 3 percent—they collect as donations.
 - ▲ Otherwise the country faces, only a few years out, social polarization.
 - ▲ Moreover, government has proved incompetent at solving social problems.
 - ▲ Virtually every success we have scored has been achieved by non-profits.
 - ▲ The non-profits spend far less for results than governments spend for failures.
 - ▲ The non-profits have the potential to become America's social sector—equal in importance to the public sector of government and the private sector of business.
 - ⇒ The delivery system is already in place: There are now some 900,000 non-profits, the great majority close to the problems of their communities.
 - ⇒ And about 30,000 of them came into being in 1990 (the latest year for which figures are available)—practically all dedicated to local action on one problem: tutoring minority children; furnishing ombudsmen for patients in the local hospital; helping immigrants through government red tape.
 - ⇒ Where twenty years ago the American middle class thought it had done its social duty by writing a check, it increasingly commits itself to active doing as well.
 - ⇒ Increasingly these volunteers do not look upon their work as charity; they see it as a parallel career to their paid jobs and insist on being trained, on being held accountable for results and performance, and on career opportunities for advancement to professional and managerial—though still unpaid—positions in the non-profit.
- ⇒ Above all, they see in volunteer work access to achievement, to effectiveness, to self-fulfillment, indeed to meaningful citizenship.
 - ⇒ And for this reason there is more demand for well-structured volunteer jobs than there are positions to fill.
 - ▲ For the non-profits' potential to become reality, **three things are needed**.
 - ⇒ First, the average non-profit must **manage itself** as well as the best-managed ones do.
 - ★ The majority still believe that good intentions and a pure heart are all that are needed.
 - ★ They do not yet see themselves as accountable for performance and results.
 - ★ And far too many splinter their efforts or waste them on non-problems and on activities that would be done better—and more cheaply—by a business.
 - ⇒ Second, non-profits have to **learn how to raise money**.
 - ★ The American public has not become less generous—there is little evidence of the “compassion fatigue” non-profit people talk about.
 - ★ Unfortunately, a great many non-profits still believe that the way to get money is to hawk needs.
 - ★ But the American public gives for results.
 - ★ It no longer gives to “charity”; it “buys in.”
 - ★ Of the charitable appeals most of us get in the mail every week, usually just one talks of results—the one that gets our check.
 - ⇒ Finally, we need a change in the **attitude of government and government bureaucracies**.
 - ★ ... Instead of such a policy, however, we have the IRS making one move after the other to penalize and to curtail donations to non-profits—and the tax

PD's View of Developmental Directions

collectors of the big states are all doing the same.

- ★ Each of these moves is presented as "closing a tax loophole"; in fact, none has yielded a penny of additional revenue and none is likely to do so.

(20) Five most important questions (for nonprofit organizations)

- ❑ Five Questions
 - ▲ What is our mission?
 - ▲ Who is our customer?
 - ▲ What does the customer value?
 - ▲ What are our results?
 - ▲ What is our plan?
- ❑ The questions are straightforward—and deceptively simple.
- ❑ Throughout the self-assessment process, you will examine the fundamental question of your mission: what the mission is and what it should be.
 - ▲ The suggested criteria for an effective mission statement are that it:
 - ⇒ Is short and sharply focused
 - ⇒ Is clear and easily understood
 - ⇒ Defines why we do what we do; why the organization exists
 - ⇒ Does not prescribe means
 - ⇒ Is sufficiently broad
 - ⇒ Provides direction for doing the right things
 - ⇒ Addresses our opportunities
 - ⇒ Matches our competence
 - ⇒ Inspires our commitment
 - ⇒ Says what, in the end, we want to be remembered for
- ❑ You will determine your primary customer: the person whose life is changed through your work.
- ❑ You will determine your supporting customers: volunteers, partners, donors, and others you must satisfy.
- ❑ You will engage in research to learn directly from customers what they value, decide what your results should be, and develop a plan with long-range goals and measurable objectives.
- ❑ Your commitment to self-assessment is a commitment to developing yourself and your organization as a leader.
- ❑ You will expand your vision by listening to your customers, by encouraging constructive dissent, by looking at the sweeping transformation taking place in society.
- ❑ You have vital judgments ahead: whether to change the mission, whether to abandon programs that have outlived their usefulness and concentrate resources elsewhere, how to match opportunities with your competence and commitment, how you will build community and change lives.
- ❑ Self-assessment is the first action requirement of leadership: the constant resharpener, constant refocusing, never being really satisfied.
- ❑ And the time to do this is when you are successful.
- ❑ If you wait until things start to go down, then it's very difficult.
- ❑ We are creating tomorrow's society of citizens through the social sector, through your non-profit organization.
- ❑ And in that society, everybody is a leader, everybody is responsible, everybody acts.
- ❑ Therefore, mission and leadership are not just things to read about, to listen to; they are things to do something about.
- ❑ Self-assessment can and should convert good intentions and knowledge into effective action—not next year but tomorrow morning.

(21) The Educated Person

- ❑ *Post-capitalist Society* (the book) deals with the environment in which human beings live and work and learn.
 - ❑ It does not deal with the person.
 - ❑ But in the knowledge society into which we are moving, individuals are central.
 - ▲ Knowledge is not impersonal, like money.
 - ▲ Knowledge does not reside in a book, a databank, a software program; they contain only information.
 - ▲ Knowledge is always embodied in a person; carried by a person; created, augmented, or improved by a person; applied by a person; taught and passed on by a person; used or misused by a person.
 - ❑ In so doing it raises new challenges, new issues, new and quite unprecedented questions about the knowledge society's representative, the educated person.
 - ❑ The knowledge society must have at its core the concept of the educated person.
 - ❑ **It will have to be a universal concept, precisely because the knowledge society is a society of knowledges and because it is global—in its money, its economics, its careers, its technology, its central issues, and above all, in its information.**
 - ❑ Post-capitalist society requires a unifying force.
 - ❑ It requires a leadership group, which can focus local, particular, separate traditions onto a common and shared commitment to values, a common concept of excellence, and on mutual respect.
 - ❑ The educated person needs to be able to bring his or her knowledge to bear on the present, not to mention molding the future.
 - ❑ "Liberal education" ... is in crisis today
 - ▲ ... all over the world today's students, a few years after they have graduated, complain that "what I have learned so eagerly has no meaning; it has no relevance to anything I am interested in or want to become."
 - ▲ Their liberal education, in other words, does not enable them to understand reality, let alone to master it.
 - ❑ Post-capitalist society needs the educated person even more than any earlier society did, and access to the great heritage of the past will have to be an essential element.
- ❑ The needs
 - ▲ The educated person we need will have to be able to appreciate other cultures and traditions:
 - ⇒ the great heritage of Chinese, Japanese, Korean paintings and ceramics;
 - ⇒ the philosophers and religions of the Orient; and Islam, both as a religion and as a culture.
 - ▲ The educated person also will have to be far less exclusively "bookish" than the product of the liberal education of the Humanists.
 - ▲ He or she will need trained perception fully as much as analysis.
 - ▲ The Western tradition will, however, still have to be at the core, if only to enable the educated person to come to grips with the present, let alone the future.
 - ▲ Tomorrow's educated person will have to be prepared for life in a global world.
 - ⇒ It will be a "Westernized" world, but also increasingly a tribalized world.
 - ⇒ He or she must become a "citizen of the world"—in vision, horizon, information.
 - ▲ But he or she will also have to draw nourishment from their local roots and, in turn, enrich and nourish their own local culture.
 - ▲ Post-capitalist society is both a knowledge society and a society of organizations, each dependent on the other and yet each very different in its concepts, views, and values.
 - ⇒ Most, if not all, educated persons will practice their knowledge as members of an organization.
 - ⇒ The educated person will therefore have to be prepared to live and work simultaneously in two cultures—that of the "intellectual," who focuses on words and ideas, and that of the "manager," who focuses on people and work.
 - ❑ We neither need nor will get "polymaths" who are at home in many knowledges; in fact, we will probably become even more specialized.
 - ❑ But what we do need—and what will define the educated person in the knowledge society—is the ability to understand the various knowledges.
 - ▲ What is each one about?
 - ▲ What is it trying to do?

PD's View of Developmental Directions

- ▲ What are its central concerns and theories?
- ▲ What major new insights has it produced?
- ▲ What are its important areas of ignorance, its problems, its challenges?
- ▲ Without such understanding, the knowledges themselves will become sterile, will indeed cease to be “knowledges.”
- ▲ They will become intellectually arrogant and unproductive.
- ▲ For the major new insights in every one of the specialized knowledges arise out of another, separate specialty, out of another one of the knowledges.
- The specialists have to take responsibility for making both themselves and their specialty understood.
 - ▲ Specialties must be understood for what they are: serious, rigorous, demanding disciplines.
 - ▲ This requires that the leaders in each of the knowledges, beginning with the leading scholars in each field, must take on the hard work of defining what it is they do.
- There is no “Queen of the Knowledges” in the knowledge society.
- All knowledges are equally valuable; all knowledges, in the words of the great medieval saint and philosopher St. Bonaventura, lead equally to the truth.
- It would be as foolish to predict the knowledge society as it would have been foolish to predict in 1776—the year of the American Revolution, of Adam Smith’s Wealth of Nations, and of James Watt’s steam engine—the society of which Marx wrote a hundred years later.
- **But one thing we can predict: the greatest change will be the change in knowledge—in its form and content; in its meaning; in its responsibility; and in what it means to be an educated person.**

(22) Effective Executive

- Effectiveness defined
 - ▲ Getting the right things done.
 - ▲ Intelligence, imagination, knowledge are essential resources, but only effectiveness converts them into results.
- Who is an executive?
 - ▲ Those knowledge workers, managers, or individual professionals
 - ⇒ who are expected
 - ⇒ by virtue of their position or knowledge
 - ⇒ to make decisions
 - ⇒ in the normal course of their work
 - ⇒ that have **significant impact** on
 - ⇒ the **performance** and **results** of the whole.
 - ▲ Authority of knowledge is surely as legitimate as the authority of position.
 - ⇒ Make decisions of significant and irreversible impact.
 - ⇒ Same kind of decisions as top management
 - ⇒ The most subordinate manager may do the same kind of work as top management
 - ★ Plan
 - Organize
 - Integrate
 - Motivate
 - Measure
 - His compass may be quite limited, but within his sphere, he is an executive.
 - ▲ There are many managers who are not executives.
 - ⇒ Have neither the responsibility nor authority over
 - ★ The ... of the work or
 - Direction,
 - Content, and
 - Quality
 - ★ The methods of its performance
 - ▲ Knowledge work
 - ⇒ Is not defined by quantity
 - ⇒ Is not defined by costs
 - ⇒ It is defined by results
- About organizations...
 - ▲ Organization is an abstraction.
 - ⇒ It is unreal compared to the reality of the environment in which it exists.
 - ▲ There are no results within the organization
 - ▲ What happens inside any organization is effort and cost.
 - ▲ The outside which is the true reality is well beyond effective control from the inside
 - ▲ Stands under the law that governs the size and structure of animals and plants
 - ⇒ The surface goes up with the square of the radius, but the mass grows with the cube.
 - ⇒ The larger the animal becomes, the more resources have to be devoted to the mass and to the internal tasks, to circulation and information, to the nervous system, and so on.
 - ▲ An organization is not, like an animal, an end in itself.
 - ⇒ And successful by the mere act of perpetuating the species.
 - ⇒ An organization is an organ of society and fulfills itself by the contribution it makes to the outside environment.
- Executive realities
 1. The executive's time belongs to everyone else.
 - 2. Executives are forced to keep on "operating" unless they take positive action to change the reality in which they live and work.
 - ⇒ The flow of **events** will determine what he is concerned with and what he does.
 - ⇒ Yet the **events** rarely tell the executive anything, let alone the real problem
 - ⇒ Events are not even symptoms (in the patient/physician sense)
 - ⇒ Needs criteria which enable him to work on the truly important contributions and results
 - 3. Within an "**organization**"
 - ⇒ Executives are effective only if and when other people make use of what he contributes.
 - 4. "**Within**" an organization
 - ⇒ And therefore removed from the only reality that matters—the outside.
 - ★ He sees the outside only through thick and distorting lenses, if at all.
 - ★ What goes on outside is usually not even known firsthand. It is received through an organizational filter of reports, that is predigested and highly abstract form that imposes organizational criteria of relevance on the outside reality.

PD's View of Developmental Directions

- ★ The relevant outside events are rarely available in quantifiable form until it is much too late to do anything about them.
- ★ The relevant events are often qualitative and not capable of quantification.
 - They are not yet “facts”.
 - For a fact, after all, is an event which somebody has defined, has classified, and above all, has endowed with relevance.
 - To be able to quantify one has to have a concept first.
 - One has to abstract from the infinite welter of phenomena a specific aspect which one then can name and finally count.
- ★ **The truly important events on the outside are not the trends. They are the changes in the trends.**
- ★ These determine ultimately success or failure of an organization and its efforts.
- ★ Such changes, however, have to be **perceived**; they cannot be counted, defined, or classified.
- ★ The old classifications still produce the expected figures.
- ★ **But the figures no longer correspond to actual behavior.**
- ⇒ The need to gain outside-focus.
 - ★ Unless he makes **special efforts** to gain direct access to outside reality, he will become increasingly inside-focused.
 - ★ The higher up in the organization he goes, the more will his attention be drawn to problems and challenges of the inside rather than events on the inside.
- The five practices—for getting the right things done
 1. Managing the small amount of time that can be brought under their control.
 2. Focus on outward contribution “What results are expected of me”?
 3. Building on strength
 - ⇒ Own strength
 - ⇒ Strengths of superiors, colleagues, and subordinates
 - ⇒ Strengths in the situation—That is what they can do.
- 4. Concentration on the few major areas where **superior performance** will produce **outstanding results**
 - ⇒ Set priorities and stay with priority decisions.
- 5. Make effective decisions
 - ⇒ A matter of system
 - ⇒ Right steps in the right sequence
 - ⇒ A few fundamental decisions
 - ⇒ The right strategy